

ADMINISTRATIVE COST TRENDS OF BLUE CROSS BLUE SHIELD PLANS IN 2021



Photograph by Jay Fleming.

SHERLOCK BENCHMARKS

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TOPICS

- Long term cost trends
- Changes in cluster costs
- Reasons for cost increases
- Costs by Cluster: Percent and PMPM
- Costs by Product: Percent and PMPM

APPENDICES

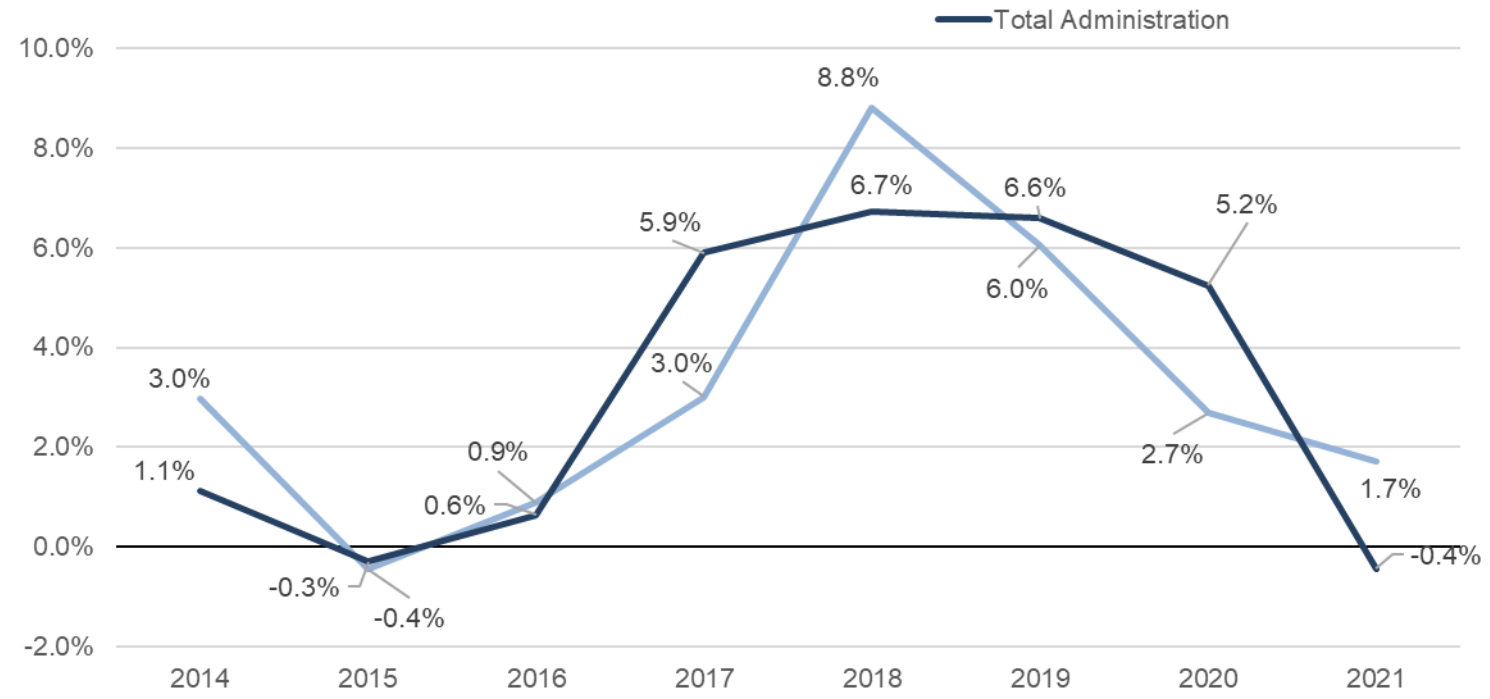
- Last year's cluster values
- Functions in each cluster of expenses
- About the Sherlock Benchmarks

Racing workboats is our metaphor for health plans striving for performance improvement.



TOTAL COSTS EXPERIENCED MODEST DECLINE. A&M ADMINISTRATION GROWTH ALSO FELL.

Figure 1. Sherlock Benchmark Summary
Blue Cross Blue Shield Rates of Change for Account and Membership Administration and Total, Constant Mix
 Median Changes in PMPM Costs



Medians. Rates of change hold universe and product mix constant.

AMONG CONTINUOUSLY PARTICIPATING PLANS, WHEN MIX IS HELD CONSTANT COST GROWTH DECLINED.

Figure 2. Sherlock Benchmark Summary

Blue Cross Blue Shield Median Changes in Per Member Per Month Expenses

Functional Area	2020 Increase		2021 Increase	
	As Reported	Constant Mix	As Reported	Constant Mix
Sales and Marketing	1.1%	3.8%	1.2%	2.4%
Medical and Provider Management	6.5%	7.7%	-1.5%	-2.0%
Account and Membership Administration	3.5%	2.7%	-0.3%	1.7%
Corporate Services	10.2%	9.7%	-5.3%	-6.6%
Total Expenses	4.0%	5.2%	0.0%	-0.4%



Constant Mix adjusts to exclude product mix differences between years.

SOURCES OF “REAL” GROWTH IN BLUE CROSS BLUE SHIELD ADMINISTRATIVE COSTS IN 2021

	Chg.	Greatest Change	Highest Weight
Sales & Marketing	2.4%	Marketing ↑	Commissions ↑
Med & Provider	-2.0%	Medical Management ↓	Medical Management ↓
Acct & Membership	1.7%	Claims ↑	Claims ↑
Corp. Serv.	<u>-6.6%</u>	Corporate Services ↓	Corporate Services ↓
Total	-0.4%	Corporate Services ↓	Corporate Services ↓



SOURCES OF *REPORTED* GROWTH IN BLUE CROSS BLUE SHIELD ADMINISTRATIVE COSTS IN 2021

	Chg.	Greatest Change	Highest Weight
Sales & Marketing	1.2%	Marketing ↑	Marketing ↑
Med & Provider	-1.5%	Medical Management ↓	Medical Management ↓
Acct & Membership	0.3%	Claims ↑	Claims ↑
Corp. Serv.	<u>-5.3%</u>	Corporate Services ↓	Corporate Services ↓
Total	0.0%	Corporate Services ↓	Corporate Services ↓



COMPARED WITH 2020, COSTS WERE 0.7% HIGHER IN 2021. COST TRENDS, CHANGES IN THE PRODUCT MIX AND UNIVERSE WERE RESPONSIBLE.

Figure 3. Sherlock Benchmark Summary
Blue Cross Blue Shield Costs by Functional Area Cluster, 2021 Results
Median Per Member Per Month Expenses

Functional Area	25th Percentile	Median	75th Percentile	Coefficient of Variation	2020 Values Median
Sales and Marketing	\$7.45	\$10.60	\$13.05	44%	\$9.38
Medical and Provider Management	5.08	5.99	7.04	22%	5.75
Account and Membership Administration	16.14	18.29	21.27	26%	18.74
Corporate Services	5.16	6.23	7.59	33%	6.73
Total Expenses	\$37.07	\$41.66	\$43.48	27%	\$41.36

PMPMs VARY BY PRODUCT.

Figure 4. Sherlock Benchmark Summary

Blue Cross Blue Shield Costs by Product, 2021 Results

Per Member Per Month

Product	25th Percentile	Median	75th Percentile	Coefficient of Variation
Commercial HMO				
Insured	\$51.13	\$52.94	\$68.62	30%
ASO / ASC	\$29.71	\$35.56	\$38.63	40%
Commercial POS				
Insured	\$46.15	\$54.46	\$62.32	18%
ASO / ASC	\$29.65	\$37.52	\$38.87	18%
Indemnity & PPO				
Insured	\$51.11	\$55.10	\$63.36	29%
ASO / ASC	\$23.75	\$29.04	\$36.79	26%
Commercial Insured	\$52.26	\$54.10	\$59.81	19%
Commercial ASO/ASC	\$23.54	\$29.55	\$37.15	26%
FEP	\$23.50	\$28.02	\$32.14	21%
Medicare Advantage				
Individual	\$113.41	\$157.67	\$168.08	47%
Group	\$104.48	\$147.23	\$174.11	54%
Medicare Advantage Total	\$113.20	\$145.39	\$172.57	48%
Medicaid	\$27.47	\$36.60	\$38.35	38%
Medicare Supplemental	\$30.12	\$35.18	\$41.63	45%
Comprehensive Total	\$37.07	\$41.66	\$43.48	27%
Medicare Advantage SNP	\$141.70	\$192.56	\$200.73	39%
Stand-Alone Medicare Part D	\$8.86	\$16.09	\$19.38	115%
Stand Alone Dental	\$2.56	\$3.23	\$3.67	139%



PERCENTS USUALLY ORDERED SIMILARLY TO PMPMs.

Figure 5. Sherlock Benchmark Summary

Blue Cross Blue Shield Costs by Product, 2021 Results

Percent of Premium Equivalents

Product	25th Percentile	Median	75th Percentile	Coefficient of Variation
Commercial HMO				
Insured	7.9%	9.3%	10.8%	25%
ASO / ASC	5.8%	6.7%	7.5%	28%
Commercial POS				
Insured	8.3%	9.8%	10.4%	16%
ASO / ASC	6.3%	7.4%	8.6%	23%
Indemnity & PPO				
Insured	9.8%	10.6%	11.4%	21%
ASO / ASC	6.0%	7.0%	8.4%	171%
Commercial Insured	9.5%	10.3%	11.3%	20%
Commercial ASO/ASC	6.1%	6.9%	8.4%	173%
FEP	3.9%	4.7%	5.8%	27%
Medicare Advantage				
Individual	11.7%	15.7%	18.5%	49%
Group	10.3%	10.8%	14.1%	65%
Medicare Advantage Total	11.6%	14.8%	18.5%	51%
Medicaid	8.1%	10.2%	11.5%	27%
Medicare Supplemental	14.5%	17.0%	22.2%	36%
Comprehensive Total	7.6%	8.7%	9.5%	22%
Medicare Advantage SNP	7.8%	9.0%	11.3%	37%
Stand-Alone Medicare Part D	7.5%	18.3%	22.0%	58%
Stand Alone Dental	13.0%	17.8%	22.4%	38%



ALL CLUSTERS SLIGHTLY DECLINED IN COMPARISON TO THE 2020 VALUES, EXCEPT SALES AND MARKETING AND MEDICAL AND PROVIDER MANAGEMENT REMAINED THE SAME.

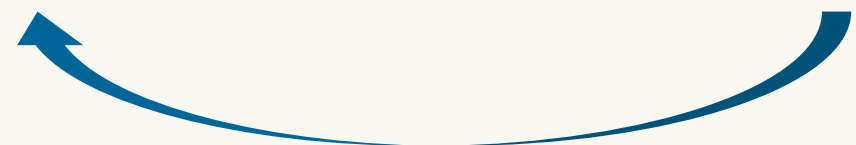
Figure 6. Sherlock Benchmark Summary

Blue Cross Blue Shield Costs by Functional Area Cluster, 2021 Results

Median Percent of Premium Equivalents

*2020
Values*

Functional Area	25th Percentile	Median	75th Percentile	Coefficient of Variation	Median
Sales and Marketing	1.7%	2.1%	2.7%	40%	2.1%
Medical and Provider Management	1.1%	1.3%	1.4%	21%	1.3%
Account and Membership Administration	3.5%	3.7%	4.4%	23%	4.0%
Corporate Services	1.1%	1.3%	1.5%	27%	1.5%
Total Expenses	7.6%	8.7%	9.5%	22%	9.5%



BLUES ADMINISTRATIVE COSTS: FLAT OR DECLINE IN 2021



- Blue costs were \$41.66, \$41.36 last year.
- Expenses were flat versus an increase of 4.0% in 2020. Excluding product mix differences, costs *decreased* by 0.4% versus 5.2% in 2020.
- Commercial declined, but more individual. Government products grew.
- Decreased costs driven by sharp decline in Corp. Services Cluster, especially the Corp. Services function.
- Redeployment? Sales & Marketing was the fastest growing cluster. Marketing especially Product Development, were especially rapid, but Broker Commissions remained a key contributor.
- A&M trend was moderate: Claims increased, IS decreased.
- M&P declined on Medical Management decline.
- Decline in Staffing Ratio, modest increase in comp. Non-labor decreased and outsourcing grew.
- Product Development, Benefit Configuration, Credit Card Fees and Actuarial suggests adaptation to changing, competitive environment.



APPENDIX A. BLUE CROSS BLUE SHIELD ADMINISTRATIVE COSTS IN 2020

Appendix A. Sherlock Benchmark Summary

Blue Cross Blue Shield Costs by Functional Area Cluster, 2020 Results

Median Per Member Per Month Expenses

Functional Area	25th Percentile	Median	75th Percentile	Coefficient of Variation
Sales and Marketing	\$7.39	\$9.38	\$11.55	36%
Medical and Provider Management	5.48	5.75	6.99	14%
Account and Membership Administration	15.83	18.74	21.43	26%
Corporate Services	5.52	6.73	7.76	35%
Total Expenses	\$37.09	\$41.36	\$44.84	24%

APPENDIX B. BLUE CROSS BLUE SHIELD ADMINISTRATIVE COSTS IN 2020

Appendix B. Sherlock Benchmark Summary

Blue Cross Blue Shield Costs by Functional Area Cluster, 2020 Results

Median Percent of Premium Equivalents

Functional Area	25th Percentile	Median	75th Percentile	Coefficient of Variation
Sales and Marketing	1.7%	2.1%	2.6%	31%
Medical and Provider Management	1.2%	1.3%	1.5%	17%
Account and Membership Administration	3.7%	4.0%	5.0%	25%
Corporate Services	1.2%	1.5%	1.8%	29%
Total Expenses	8.1%	9.5%	10.3%	20%

APPENDIX C. CAREFUL QUALITY ASSURANCE

- *Voluntary* – Since providers are users, they have stake in the metrics. Other than required metrics, scope is also voluntary.
- *Strong definitions* – Developed with participants. Activities and cost centers listed, supported by ongoing clarifying discussions.
- *Highly granular* - Ready identification of outliers, as well as drill-down capabilities.
- *Practice effect* – High percent of repeaters: 75% of Blue Plans participating this year also participated last year. 63% of Blue participants have done so for ten or more years.
- *Checks* - In survey instrument and in analytical module; Anomalies investigated.
- *Data Validation* – Reconciled to audit. Preliminary results provided for proofing.
- *Business model* - No conflicts of interest; no “Tragedy of the Commons.”



APPENDIX D. SUMMARY OF THE REPORTS AND GUIDELINES

- The **financial metrics** report analyzes costs segmented by function and by product. They are standardized by PMPMs and by Percent.
- The **staffing and compensation** report analyzes the staffing ratios, per employee compensation and propensity to outsource. We supply estimates of staffing ratios by product.
- The **operational metrics** include operational metrics unique to particular functions such as the average speed of answer in member services and the time between claim receipt and payment approved. While completion of many of these metrics is optional, you will receive the results of your universe.
- **Medical management** metrics are comprised of results for all universes. These include the costs to manage various cases and diseases. This is optional like the operational metrics.
- **Health care utilization** metrics are also comprised of results for all universes. Unit cost and volumes are provided for each product for 40 health care services and products.
- The **CFO Letter** summarizes and analyzes the financial metrics, staffing, and compensation reports. After eliminating the effect of product mix differences, variances from norms are identified and functions are ranked in order of importance. We calculate the value of the factors of staffing ratios, compensation and non-labor costs, and their relative contribution to each functional variance.
- The **Common Guidelines** provide detailed definitions of activities and calculation notes.



APPENDIX E. STRONG NETWORK, BROAD ACCEPTANCE

- The Sherlock Benchmarks is in its 25th consecutive year. We expect that our cumulative experience to total approximately 963 plan years by year-end 2022. Expect ~34 plans serving ~63 million members to participate in 2021.
- Since June 2019, health plans serving more than 210 million insured Americans use the Sherlock Benchmarks, including most Blue Cross Blue Shield plans, public companies and the largest Independent/Provider-Sponsored health plans.
- Of the 33 U.S.-based Blue Cross Blue Shield primary licensees, fourteen serving approximately 49.1 million people, participate in this year's Sherlock Benchmarking Study for Blue Cross Blue Shield Plans.
- Of the 15 members of the Alliance of Community Health Plans that are not focused on public programs or are staff-model plans, six are participating in this year's Sherlock Benchmarking Study for Independent / Provider - Sponsored health plans.
- Four of the 10 largest commercial-focused Health Plan Alliance members are participating in this year's Sherlock Benchmarks.



APPENDIX F. FUNCTIONS IN EACH CLUSTER

Appendix F. Sherlock Benchmark Summary

Functions Included in Each Administrative Expense Cluster

Sales & Marketing

1. Rating and Underwriting
 - (a) Employer Group Reporting
 - (b) Risk Adjustment
 - (c) Other Rating and Underwriting
2. Marketing
 - (a) Product Development and Market Research
 - (b) Member and Group Communication
 - (c) Other Marketing
3. Sales
 - (a) Account Services
 - (b) Internal Sales Commissions
 - (c) Other Sales
4. External Broker Commissions
5. Advertising and Promotion
 - (a) Media and Advertising
 - (b) Charitable Contributions

Provider & Medical Management

6. Provider Network Management and Services
 - (a) Provider Relations Services
 - (b) Provider Contracting
 - (1) Provider Configuration
 - (2) Other Provider Contracting
 - (c) Provider Audit / Billing Validation
 - (d) Other Provider Network Management and Services
7. Medical Management / Quality Assurance / Wellness
 - (a) Precertification
 - (b) Case Management
 - (c) Disease Management
 - (d) Nurse Information Line
 - (e) Health and Wellness
 - (f) Quality Components
 - (g) Medical Informatics
 - (h) Utilization Review
 - (i) Other Medical Management

Account & Membership Administration

8. Enrollment / Membership / Billing
9. Customer Services
 - (a) Member Services
 - (c) Grievances and Appeals
10. Claim and Encounter Capture and Adjudication
 - (a) Coordination of Benefits (COB) and Subrogation
 - (b) BlueCard Home and Custom Par Fees
 - (c) Medicare Crossover Fees
 - (d) Other Claim and Encounter Capture and Adjudication
11. Information Systems Expenses
 - (a) Operations and Support Services
 - (b) Applications Maintenance
 - (1) Benefit Configuration
 - (2) Other Applications Maintenance
 - (c) Applications Acquisition and Development
 - (1) Applications Amortization and Licensing Expenses
 - (2) Pre-Planning Project Costs
 - (d) Security Administration and Enforcement

Corporate Services

12. Finance and Accounting
 - (a) Credit Card Fees
 - (b) Other Finance and Accounting
13. Actuarial
14. Corporate Services Function
 - (a) Human Resources
 - (b) Legal
 - (1) Compliance
 - (2) Government Affairs
 - (3) Outside Litigation
 - (4) Fraud, Waste & Abuse
 - (5) All Other Legal
 - (c) Facilities
 - (d) OPEB
 - (e) Audit
 - (f) Purchasing
 - (g) Imaging
 - (h) Printing and Mailroom
 - (i) Risk Management
 - (j) Other Corporate Services Function
15. Corporate Executive & Governance
16. Association Dues and License / Filing Fees



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